



## Policy & Legislation

### DEFENSE FAR SUPPLEMENT (DFARS) CHANGE NOTICE 20060223

**D**oD published the following interim, final, and proposed DFARS rules on Feb. 23, 2006. Additional information on these rules is available at <http://www.acq.osd.mil/dpap/dars/dfars/changenotice/index.htm>.

#### Interim Rule

##### Trade Agreements Thresholds and Morocco Free Trade Agreement (DFARS Case 2005-D017)

Incorporates increased thresholds for application of the World Trade Organization Government Procurement Agreement and the Free Trade Agreements, as determined by the United States Trade Representative; implements a new Free Trade Agreement with Morocco; and amends the list of end products that are subject to trade agreements.

#### Final Rules

##### Administrative Matters (DFARS Case 2003-D084)

Relocates administrative procedures for signature of contract documents to the DFARS Procedures, Guidance, and Information (PGI); and deletes text on security requirements and IRS reporting requirements that are adequately addressed in the FAR.

##### Uniform Contract Line Item Numbering (DFARS Case 2003-D082)

Eliminates certain exceptions to requirements for uniform contract line item numbering, to promote standardization in contract writing; and relocates to PGI, procedures for use and numbering of contract exhibits and attachments.

##### Construction Contracting (DFARS Case 2003-D034)

Updates requirements for contracting for construction; and relocates to PGI, procedures for distribution and use of contractor performance reports, handling of government estimates of construction costs, use of bid schedules with additive or deductive items, and establishment of technical working agreements with foreign governments.

##### Contractor Insurance/Pension Reviews (DFARS Case 2003-D050)

Clarifies responsibilities of administrative contracting officers and auditors in conducting reviews of a contrac-

tor's insurance programs, pension plans, and other deferred compensation plans; and updates and relocates to PGI, the procedures for those reviews.

##### Business Restructuring Costs (DFARS Case 2004-D026)

Finalizes, without change, the interim rule published on July 26, 2005 (DFARS Change Notice 20050726) addressing procedures for allowing contractor external restructuring costs when savings will result for DoD. The rule authorizes the Director of the Defense Contract Management Agency to make determinations of savings related to contractor restructuring costs that are expected to be less than \$25 million over a 5-year period; and clarifies requirements for projected restructuring costs and savings to be computed on a present value basis.

#### Proposed Rule

##### Small Business Programs (DFARS Case 2003-D047)

Updates requirements for contracting with small business and small disadvantaged business [http://www.dau.mil/Spotlight/Workforce\\_Development\\_Award.asp](http://www.dau.mil/Spotlight/Workforce_Development_Award.asp).

### DEFENSE FAR SUPPLEMENT (DFARS) CHANGE NOTICE 20060321

**D**oD published the following final and proposed DFARS changes on March 21, 2006. Additional information on these changes is available at <http://www.acq.osd.mil/dpap/dars/dfars/changenotice/index.htm>.

#### Final Rules

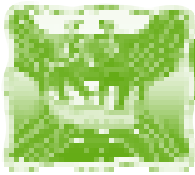
##### Consolidation of Contract Requirements (DFARS Case 2003-D109)

Finalizes the interim rule published on Sept. 17, 2004 (DFARS Change Notice 20040917), placing restrictions on consolidating two or more separate requirements into a single solicitation and contract with a total value exceeding \$5 million. Implements Section 801 of the National Defense Authorization Act for Fiscal Year 2004.

The final rule contains additional changes to clarify the applicability of the rule and the requirements for market research before soliciting offers for acquisitions that could lead to a consolidation of contract requirements.

##### Component Breakout (DFARS Case 2003-D071)

Relocates policy on component breakout from DFARS Appendix D to DFARS Part 207; and relocates procedures for component breakout from DFARS Appendix D to PGI.



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Breakout of components of end items permits the government to purchase the components directly from the manufacturer or supplier and furnish them to the end item manufacturer as government-furnished material for future acquisitions.

### **Contractor Performance of Acquisition Functions Closely Associated with Inherently Governmental Functions (DFARS Case 2004-D021)**

Finalizes the interim rule published on March 23, 2005 (DFARS Change Notice 20050323), that permits contracting for acquisition functions closely associated with inherently governmental functions only if: appropriate DoD personnel are not available to perform the functions; appropriate DoD personnel will oversee contractor performance and will perform all associated inherently governmental functions; and the agency addresses any potential contractor organizational conflict of interest. Implements Section 804 of the National Defense Authorization Act for Fiscal Year 2005. The final rule contains an additional change to clarify the requirement for government oversight of contractor personnel.

### **Competition Requirements for Federal Supply Schedules and Multiple Award Contracts (DFARS Case 2004-D009)**

Updates and clarifies requirements for competition in the placement of orders for supplies or services under Federal Supply Schedules and multiple award contracts. The rule establishes approval requirements for non-competitive orders that are consistent with the approval requirements found in the FAR and makes additional changes for consistency with current FAR requirements for use of Federal Supply Schedules; relocates procedural information on the use of Federal Supply Schedules to PGI; and adds PGI guidance on the appropriate use of exceptions to competition requirements.

### **Approval of Service Contracts and Task and Delivery Orders (DFARS Case 2002-D024)**

Finalizes the interim rule published on May 24, 2005 (DFARS Change Notice 20050524), requiring DoD activities to comply with review and approval requirements when acquiring supplies or services through the use of non-DoD contracts in amounts exceeding the simplified acquisition threshold. Implements Section 801 of the National Defense Authorization Act for Fiscal Year 2002 and Section 854 of the National Defense Authorization Act for Fiscal Year 2005. The final rule contains additional changes to address requirements for departments

and agencies to submit an annual report on the use of non-DoD contracts.

### **Incentive Program for Purchase of Capital Assets Manufactured in the United States (DFARS Case 2005-D003)**

Finalizes the interim rule published on May 24, 2005 (DFARS Change Notice 20050524), requiring consideration of the purchase of capital assets (including machine tools) manufactured in the United States, when conducting source selections and making award fee determinations for major defense acquisition programs. Implements Section 822 of the National Defense Authorization Act for Fiscal Year 2004. The final rule contains additional changes to clarify the statutory requirements.

### **Acquisition of Ball and Roller Bearings (DFARS Case 2003-D021)**

Updates requirements for the acquisition of ball and roller bearings from domestic sources, and clarifies the applicability of these requirements to components of commercial items. Addresses the provisions of annual DoD appropriations acts and eliminates text addressing obsolete statutory provisions.

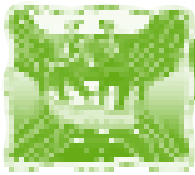
## **Proposed Rules**

### **Electronic Submission and Processing of Payment Requests (DFARS Case 2005-D009)**

Proposes amendments to the exceptions to the general requirement for contractors to submit payment requests in electronic form. The DFARS presently provides an exception for contractors that are unable to submit electronic payment requests. This exception has been subject to differing interpretations as to what constitutes a contractor's inability to submit an electronic payment request. The proposed rule replaces this exception with one that applies when the administrative contracting officer determines that electronic submission would be unduly burdensome to the contractor.

### **Reports of Government Property (DFARS Case 2005-D015)**

Proposes revisions to requirements for reporting of government property in the possession of DoD contractors. The proposed rule replaces existing DD Form 1662 reporting requirements with requirements for DoD contractors to electronically submit, to the Item Unique Identification (IUID) Registry, the IUID data applicable to the government property in the contractor's possession. This will result in more accurate and efficient reporting and recordkeeping.



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### Debarment, Suspension, and Business Ethics (PGI Case 0000-P010)

Adds information on contractor responsibility matters and use of GSA's Excluded Parties List System.

### CONUS Antiterrorism Requirements (PGI Case 0000-P046)

Adds requirements for consideration of antiterrorism measures in acquisition planning.

### Taxes (PGI Case 0000-P024)

Contains information for use in addressing tax issues under DoD contracts.

### DEFENSE SCIENCE BOARD (FEBRUARY 2006)

#### TRANSFORMATION: A PROGRESS ASSESSMENT, VOLUME I

**I**n a February 2006 memorandum to Under Secretary of Defense (Acquisition, Technology and Logistics) Kenneth J. Krieg, Defense Science Board Chairman Dr. William Schneider Jr., has forwarded Volume I of the Final Report of the DSB 2005 Summer Study on "Transformation: A Progress Assessment" <<http://www.acq.osd.mil/dsb/reports.htm>>. Volume I of the study, which was chaired by retired Air Force Gen. Larry Welch and Dr. Robert Hermann, assessed the Department of Defense's progress towards transformation, concentrating on identifying objectives and recommending actions to meet emerging challenges. Volume II, which is nearing a final draft, will be the study's sub-panel reports.

According to the report, the Department of Defense has succeeded in producing revolutionary changes in its ability to perform major combat operations through evolutionary improvements, as demonstrated in recent conflicts. DoD has improved its adaptation in other operational capabilities by leveraging valuable combat experienced personnel. Of concern, however, DoD has produced little change or improvement in the business practices of the enterprise, namely a requirement to align the major DoD entities, develop a multi-year business plan, and reform the acquisition process. The report also addresses other areas of concern that could potentially impact a successful DoD transformation: Joint Concept Development, human resources, our deficiency of multi-agency campaign planning, and future challenges for the defense industry.

Endorsing the Task Force's recommendations, Schneider said that their observations and recommendations have been consistent with the previous DSB studies and,

if implemented, will improve the Department's transition to an organization adapted to meet the challenges of the 21st century.

### AIR FORCE PRINT NEWS (MARCH 3, 2006)

#### AIR FORCE LEADERS TESTIFY ON PROCESSES USED TO COMBAT COSTS

*Staff Sgt. C. Todd Lopez, USAF*

**W**ASHINGTON (AFPN)—The Air Force has seen a rise in the cost of doing business, Secretary of the Air Force Michael W. Wynne told members of the House Armed Services Committee during testimony March 1.

"We are experiencing unyielding second order effects that continue to drain our top line—we are exhausting all our assets at a much higher rate than forecasted," the secretary said.

Some of those costs involve expanding personnel benefits and rising health-care costs. Operational and maintenance costs have also risen, he said.

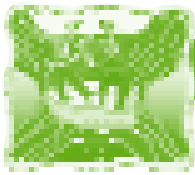
However, the secretary told members of the congressional committee the Air Force has found ways to deal with some rising costs.

"To rein in personnel costs, we are using total force integration," the secretary said. "This has exposed redundancies to capitalize on as we continue to operationalize the Guard and Reserve."

Besides better using Air National Guard and Air Force Reserve forces, the Service has also implemented Air Force Smart Operations 21. The program is an Air Force-developed mix of private sector practices designed to optimize business processes and to save money.

"We have instituted AFSO21—smarter and leaner operations," he said. "No process is immune from this Air Force-wide critical review. Efficiency from AFSO21, total force integration, and lessons learned from 15 years under fire permit an end strength reduction of 40,000 full-time equivalents over the future years defense plan."

The Air Force is planning to reduce its end strength by as many as 40,000 people over the next few years. Some congressional members asked how that is possible, considering the stress on the military because of the global war on terrorism.



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Chief of Staff of the Air Force Gen. T. Michael Moseley explained that because of efficiencies from new equipment and new processes, the Air Force can do the same amount of work with fewer people.

He cited past force reductions, such as replacing telephone operators with automated switching systems and contracting out vehicle fleet maintenance technicians. Both are examples of how the Air Force reduced its end strength.

"There are natural efficiencies as we modernize and recapitalize where we can come down on this," the general said. "So to have extra people just to have them, I'm not sure is the right sight picture."

Wynne also asked Congress to lift restrictions on when the Service is allowed to retire military aircraft. Maintenance costs on some aircraft are high. Allowing the Air Force to retire those aircraft would save the Service money.

Moseley also told committee members that he looked forward to expanding the mission of unmanned aerial vehicles, such as the MQ-1 Predator Unmanned Aerial Vehicle, beyond their current role.

"And I'm a big fan of looking at applications that include something that looks a whole lot like a bomber, that may be unmanned," the general said. "Something that has range and persistence and payload that can penetrate airspace and continue to hold targets at risk."

Also of interest to committee members was the role of the F-22A Raptor aircraft, now into initial operational capability at Langley Air Force Base, Va. Moseley told committee members the aircraft is performing flawlessly and is central to the Air Force's role as the world's dominant air power.

"We've flown (the F-22A) in Operation Noble Eagle missions over the Capital and the East Coast. We have plans to take it out of the continental United States in the spring," the general said. "You begin a joint fight with air dominance. Whether it is a surface maritime or a surface land component, that's what you have to do. And that's what (the F-22A) will do."

Moseley and Wynne also discussed the Air Force's efforts to recapitalize on the KC-135 Stratotanker, the development of a joint cargo aircraft with the Army, and a

stronger emphasis on foreign language and cultural skills to be developed in the Air Force.

"Next academic year at Maxwell, every person that goes through the Senior Noncommissioned Officer Academy, Air Command and Staff, and Air War College will take one of four languages—Arabic, Chinese, Spanish, or French—and focus on regional studies," Moseley said.

The general also said he is working with the State Department to get some of the graduates of those courses into foreign embassies to help develop foreign cultural skills in airmen.

### ARMY NEWS SERVICE (MARCH 7, 2006) **SECARMY ORDERS ARMY-WIDE BUSINESS TRANSFORMATION**

*Staff Sgt. Carmen L. Burgess, USA*

**W**ASHINGTON—A deployment order went out Army-wide on March 6 to execute the business transformation principles of Lean Six Sigma throughout the force to free up resources for the operational Army and to more quickly provide equipment to the soldier.

"This is the largest deployment of management science since the beginning of the science," said Mike Kirby, deputy under secretary of the Army for Business Transformation. This position was created to oversee the deployment of Lean Six Sigma across the Army. Kirby emphasized the need for both leaders and workers to embrace the principles.

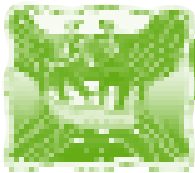
"The increased focus on measuring results brought about by personal leadership," said Secretary of the Army Francis Harvey, "will ensure that the Army realizes evolutionary transformation in all its processes, and ultimately benefits from revolutionary outcomes."

"Where it has already been implemented, it has been successful," Kirby said. "The workforce is 100 percent behind it."

During fiscal 2005, the Army Materiel Command saw \$110 million in savings and cost avoidance as a result of implementing LSS practices.

For example, by removing waste and better controlling output, Letterkenny Army Depot, Pa., has been the forerunner in the program in reducing costs by \$11.9 million in PATRIOT air defense missile system recapitalization.





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Other Army depots have also made dynamic changes by applying LSS principles. Pine Bluff Arsenal, Ark., has reduced repair recycle time by 90 percent and increased its production rate by 50 percent on M-40 protective masks. Red River Army Depot, Texas, has increased the output of vehicle inspection and repair by 220 percent.

### LSS Benefits Warfighters

“We are turning things around faster for the warfighter,” said Gen. Benjamin Griffin, commanding general of Army Materiel Command. “This is showing significant savings and improvement wherever it has been implemented.”

To date, nearly 1,400 leaders, referred to as “black and green belts,” across the Army have been trained to teach others how to implement the business practice, said Maj. Gen. Ross Thompson, director for Army Programs, Analysis, and Evaluation.

“This is a powerful mechanism to change the way we do business,” he said.

“This is a proven body of knowledge,” Kirby said, “that requires a leadership commitment.” In order to accelerate the process, he said a top down and bottom up approach must be taken to implement changes.

This means that management and technicians need to collaborate in order to redefine the process needed to improve speed, quality, and cost.

But Harvey doesn’t plan to stop the application of the process on the factory floors. He is applying the principles to his own administrative services, installations, military construction, recruiting, medical capabilities, and civilian human resources.

In July 2005, the secretary and Army chief of staff Gen. Peter Schoomaker sent out a letter to the Army’s major commands requesting an assessment be made of processes that would benefit from business transformation. More than 230 processes have been nominated by the MACOMs to be revamped.

“We are personally committed to leading these changes,” the leaders wrote. “Business transformation is critical to the Army’s continued success.”

“This is a fiduciary responsibility we have to the nation,” said Harvey in a media roundtable March 3. “We are changing the way we manage things. We are going to get more output for the same amount of money.”



During his visit to Corpus Christi Army Depot Jan. 25, Secretary of the Army Francis Harvey (right) was shown some of the different pieces of aviation equipment that are refurbished and re-installed on aircraft. More than 25,000 pieces of aviation maintenance equipment have come through the depot in the last year.

Photograph by Staff Sgt. Carmen Burgess, USA.

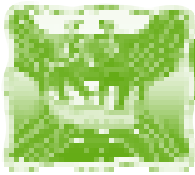
Harvey’s passion is something that he is spreading to others.

“We want everyone to be passionate about transformation,” the secretary said. He said he is striving for a three-dimensional business culture that is dedicated to continuous improvement, focused on performance, and based on the enduring Army values.

### NAVY NEWSSTAND (MARCH 10, 2006) NAVY-COAST GUARD NATIONAL FLEET POLICY UPDATED

Gordon I. Peterson

**W**ASHINGTON (NNS)—Chief of Naval Operations Adm. Mike Mullen and Commandant of the Coast Guard Adm. Thomas H. Collins



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jointly approved a new National Fleet policy statement in early March aimed at strengthening Navy-Coast Guard cooperation and tailored operational integration of each Service's multimission platforms, infrastructure, and personnel.

Building on more than two centuries of close collaboration and joint operations in peace and war, this firm commitment to shared purpose directly supports the new National Strategy for Maritime Security approved by President Bush this past September.

"Security of the maritime domain can be accomplished only by seamlessly employing all instruments of national power in a fully coordinated manner," the strategy states.

The National Fleet, which originated in 1998, reflects an agreement between the Navy and the Coast Guard to plan, acquire, and maintain forces that support and complement each Service's roles and missions. With this latest update, the Services will be able to share assets, pro-

viding unique capabilities for expeditionary warfare and maritime homeland defense and security missions.

"While we remain separate Services, we recognize that full cooperation and integration of our non-redundant and complementary capabilities must be achieved," Mullen and Collins said. "This continues to ensure the highest level of maritime capabilities and readiness for the nation's security and investment.

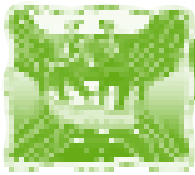
"A joint and interoperable maritime force is needed to establish the numerical sufficiency required for effective global operations and to effectively foster and leverage regional international partnerships in order to achieve global maritime domain awareness and maritime transportation security in the era of globalization," they said.

The Navy-Coast Guard National Fleet has three main attributes. First, it is composed of ships, boats, aircraft, and shore command-and-control nodes that are affordable, adaptable, interoperable, and possess complementary



WASHINGTON, D.C. (March 9, 2006)—Chief of Naval Operations (CNO) Adm. Mike Mullen holds up briefing material that describes the National Fleet Policy between the Navy and Coast Guard to the Senate Armed Services Committee. As part of his testimony concerning the National Defense Authorization Request for Fiscal Year 2007 and the Future Years Defense Program, the CNO shared the witness table alongside Secretary of the Navy (SECNAV) Donald C. Winter and Commandant of the Marine Corps (CMC) Gen. Michael W. Hagee. The Navy and Coast Guard National Fleet Policy is an agreement between the two Services to plan together, acquire, and maintain forces that support and complement each Service's role and missions.

U.S. Navy photograph by Chief Photographer's Mate Johnny Bivera.



capabilities. Secondly, these forces will be designed, wherever possible, around common command, control, and communications equipment; operational, weapon, and engineering systems; and include coordinated operational planning, procurement, training, and logistics. Lastly, the National Fleet will be capable of supporting the broad spectrum of U.S. national security requirements—from power projection to defense of the homeland.

“As the Navy develops shallow water and riverine capabilities, we will seek increasing synergies with the Coast Guard, at home and abroad, exploring complementary design, acquisition, operations, and training initiatives,” Mullen testified before the House Armed Services Committee March 3.

He described the new National Strategy for Maritime Security as a “very critical and important document,” and said he and Collins will build on their strong relationship to achieve the level of maritime domain awareness they think vital for the future. The Coast Guard agrees.

“It is not narrowly constructed as a national counterterrorism plan; it is an all-threat plan including counterdrugs, migrant issues, fishery enforcement, and other security areas—a systems view of the maritime,” Collins said recently. “There is a lot of work to be done to give meaning and add meat to those plans, and the Navy and the Coast Guard are engaged in doing that.”

The Navy’s contribution to the National Fleet consists of multimission ships, submarines, and aircraft, as well as Naval Coastal Warfare, Naval Special Warfare, and C4ISR assets designed for the full spectrum of naval operations, from peacetime engagement to global war. The Coast Guard’s contribution is its statutory authorities; multimission cutters, boats, aircraft, and C4ISR; as well as law enforcement and environmental response teams. This contribution, designed for the full spectrum of Coast Guard missions, includes maritime security operations, counterterrorism-crisis response, and filling the joint combatant commanders’ theater plans calling for general-purpose warships.

“Our Services have a record of working together that goes back a long way,” Mullen said. “Along with the Marine Corps, our relationship with the Coast Guard is the most critical relationship we can possibly have when it comes to securing the maritime domain.”

*Peterson is with Chief of Naval Operations Public Affairs.*

### BUSINESS TRANSFORMATION AGENCY RELEASES ANNUAL REPORT TO CONGRESS

**O**n March 15, the Defense Business Transformation Agency (BTA) submitted their 2006 Congressional Report regarding the status of the Department of Defense’s (DoD’s) Business Transformation effort. Read the entire report at <http://www.defenselink.mil/dbt/>.

### AIR FORCE PRINT NEWS (MARCH 24, 2006)

#### AIR FORCE RELEASES UAV STRATEGIC VISION

**W**ASHINGTON—The Air Force recently completed a vision document to provide high-level guidance to Service development and integration of unmanned aircraft for the next 25 years.

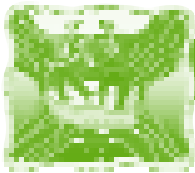
While the Air Force has been experimenting with unmanned aerial vehicles (UAVs) since 1962, the technology has only recently evolved to a point to provide truly transformational capabilities to the joint commander, said Brig. Gen. Stanley Clarke, deputy director of the Air Force Strategic Planning Directorate.

“Sensors and payloads are now smaller, lighter, and more capable,” Clarke said. “And the required command, control, communications, computer, intelligence, surveillance, and reconnaissance technologies have only recently come online.”

Air Force UAVs bring persistence to the fight and also have the ability to work in hazardous environments, said Col. Gail Wojtowicz, chief of the Air Force’s Future Concepts and Transformation Division.

“Unmanned aircraft are a critical piece of ongoing Air Force transformation,” Wojtowicz said. “Their persistence couples an unblinking eye with the ability to rapidly strike targets of opportunity, such as fleeing terrorists or insurgents. They also operate in dangerous chemical or biological environments, require a much smaller forward logistical footprint, and are as effective in conducting mundane tasks in the 30th hour as they are in the first.”

The Air Force produced the UAV strategic vision document, entitled “The U.S. Air Force Remotely Piloted Aircraft and Unmanned Aerial Vehicle Strategic Vision,” primarily in response to recommendations by the 2004 Air Force Futures Game, which was a guided strategic discussion about the Air Force’s future capabilities.



U.S. Army Sgt. Juan Rivera launches a Raven unmanned aerial vehicle into the air over Baghdad, Iraq, on Dec. 15, 2005. The Raven system is used to conduct surveillance in outlying areas in downtown Baghdad. Rivera is assigned to the 1st Battalion, 9th Field Artillery, 3rd Infantry Division. DoD photograph by Pfc. William Servinski II, USA.

While not directive in nature, the document lays out a broad vision and provides recommendations. These include developing common terminology, adequately funding relevant science and technology, coordinating efforts with other Services, managing cost and performance expectations, reviewing and updating laws and policies, and integrating unmanned aircraft with manned and space platforms.

The new strategic vision document also addresses the historical context of UAVs, the unique attributes of the aircraft, and the various challenges in fielding them, Clarke said.

"While unmanned aircraft have incredible potential, they still have formidable obstacles to overcome," he said. "They must be integrated into national and international airspace, their costs must be kept in check, and the C4ISR systems they depend on are vulnerable to attack and use an incredible amount of bandwidth." The general also said there are policy and legal issues to address in regards to UAVs, as well as unique organizational, manning, and training issues.

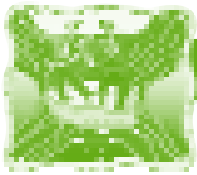
The new Air Force strategic vision is consistent with the Office of the Secretary of Defense Unmanned Aircraft System Roadmap released in October, as well as the recently completed Quadrennial Defense Review, Clarke said.

*The U.S. Air Force Remotely Piloted Aircraft and Unmanned Aerial Vehicle Strategic Vision is available on Air Force Link at <<http://www.af.mil/shared/media/document/AFD-060322-009.pdf>>.*

### GENERAL SERVICES ADMINISTRATION NEWS RELEASE (APRIL 7, 2006) **GSA RECEIVES FINAL CONGRESSIONAL APPROVAL TO ESTABLISH THE FEDERAL ACQUISITION SERVICE**

**W**ashington, D.C.—The U.S. General Services Administration (GSA) announced today that its plan to create the Federal Acquisition Service (FAS) has received final approval from Congress. FAS will be formed by the merger of GSA's Federal Supply Service (FSS) and the Federal Technology Service (FTS).





The plan was approved today by the Senate Appropriations subcommittee with oversight for the agency; House Appropriations leaders gave their approval on April 6. GSA delivered the plan to Congress on February 27, following a request for review by the House and Senate Appropriations committees.

“This is a great day for GSA and for the new FAS,” said Acting GSA Administrator David L. Bibb. “We are now positioned to begin FAS implementation and adapt to a marketplace that has grown far more complex and demanding over the decades. With this evolution, we will increase GSA’s value to our federal agency customers and the American taxpayer.”

“I am pleased to report that the Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies has given its full approval and support to the GSA plan for reorganization,” said Senator Kit Bond (R-Mo.), chairman of the subcommittee. “My colleagues in the Senate and I are optimistic that the proposed reforms will bring about the new FAS, and I look forward to continuing to support GSA as the agency moves forward.”

This new FAS will include five major customer centers, among these:

- Customer Accounts and Research (CAR). CAR will permit FAS to better understand customer requirements and become a strategic partner in helping agencies meet their requirements.
- Acquisition Management. The FAS emphasis on acquisition management will ensure that its activities are fully compliant with laws, regulations, and policies, and that operating practices are consistent across business lines.
- Integrated Technology Services. This portfolio combines the business lines from information technology, some professional services, and telecommunications.
- General Supplies and Services. This portfolio acquires a broad range of commercial products as well as some professional services, as well as GSA specialized logistics-based activities.
- Travel, Motor, Vehicle, and Card Services. This portfolio operates with respective supplier industries but shares commonalities for customers that provide opportunities for synergy and scale.

In turn, each portfolio will be comprised of various divisions in order to serve customer needs and establish GSA as the federal community’s agency of choice when it comes to acquiring goods, services, and other workplace needs.

“We believe the new FAS will help GSA improve its support for federal agencies as they strive to meet the needs of the American people,” said Acting FAS Commissioner G. Martin Wagner. “Congressional support for the new FAS was key to helping GSA institute a more effective and efficient agency that will offer timely solutions at excellent prices, thereby allowing agencies to concentrate on their core missions.”

The new FAS competencies in acquisition excellence, program expertise, and policy compliance will provide value to the taxpayer by:

- Lowering the cost of government by efficiently leveraging the government’s buying power to obtain the best value in products and services from suppliers at the lowest possible transaction cost
- Increasing value to commercial suppliers of all types and sizes, by creating consistent and innovative processes to offer their products and services to government agencies more efficiently.

*Media contact is Neil Franz, (202) 501-1231, or e-mail [neil.franz@gsa.gov](mailto:neil.franz@gsa.gov).*

### GOVERNMENT ACCOUNTABILITY OFFICE REPORTS (JANUARY – APRIL 2006)

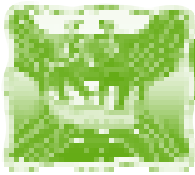
**T**he following Government Accountability Office (GAO) Reports were issued between January and April 2006 and may be of interest to the acquisition workforce at large. Review the final reports at <http://www.gao.gov>.

#### Business, Industry, and Consumers

- **Small Business Innovation Research:** Information on Awards Made by NIH and DoD in Fiscal Years 2002 through 2004, GAO-06-565, April 14, 2006

#### Employment

- **Human Capital:** Agencies Are Using Buyouts and Early Outs with Increasing Frequency to Help Reshape Their Workforces, GAO-06-324, March 31, 2006



### Government Operations

- **Paperwork Reduction Act:** New Approaches Can Strengthen Information Collection and Reduce Burden, GAO-06-477T, March 8, 2006
- **Federal Contact Centers:** Mechanism for Sharing Metrics and Oversight Practices along with Improved Data Needed, GAO-06-270, February 8, 2006

### National Defense

- **Defense Acquisitions:** Major Weapon Systems Continue to Experience Cost and Schedule Problems under DoD's Revised Policy, GAO-06-368, April 14, 2006
- **Unmanned Aircraft Systems:** Improved Planning and Acquisition Strategies Can Help Address Operational Challenges, GAO-06-610T, April 6, 2006
- **Defense Acquisitions:** Actions Needed to Get Better Results on Weapons Systems Investments, GAO-06-585T, April 5, 2006
- **Defense Acquisitions:** DoD Wastes Billions of Dollars through Poorly Structured Incentives, GAO-06-409T, April 5, 2006
- **Defense Acquisitions:** Improved Business Case Key for Future Combat System's Success, GAO-06-564T, April 4, 2006
- **Force Structure:** Capabilities and Cost of Army Modular Force Remain Uncertain, GAO-06-548T, April 4, 2006
- **Contract Security Guards:** Army's Guard Program Requires Greater Oversight and Reassessment of Acquisition Approach, GAO-06-284, April 3, 2006
- **Defense Acquisitions:** Assessments of Selected Major Weapon Programs, GAO-06-391, March 31, 2006
- **Highlights of a GAO Forum:** Managing the Supplier Base in the 21st Century, GAO-06-533SP, March 31, 2006
- **Defense Acquisitions:** Challenges Associated with the Navy's Long-Range Shipbuilding Plans, GAO-06-587T, March 30, 2006
- **Defense Logistics:** Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps, GAO-06-604T, March 30, 2006
- **Tactical Aircraft:** Recapitalization Goals Are Not Supported by Knowledge-Based F-22A and JSF Business Cases, GAO-06-523T, March 28, 2006
- **Post-Hearing Questions for the Record Related to the Department of Defense's National Security Personnel System (NSPS),** GAO-06-582R, March 24, 2006
- **Defense Logistics:** Several Factors Limited the Production and Installation of Army Truck Armor during Current Wartime Operations, GAO-06-160, March 22, 2006
- **Tactical Aircraft:** Recapitalization Goals Are Not Supported by Knowledge-Based F-22A and JSF Business Cases, GAO-06-487T, March 16, 2006
- **Defense Acquisitions:** Missile Defense Agency Fields Initial Capability but Falls Short of Original Goals, GAO-06-327, March 15, 2006
- **Joint Strike Fighter:** DoD Plans to Enter Production before Testing Demonstrates Acceptable Performance, GAO-06-356, March 15, 2006
- **Unmanned Aircraft Systems:** New DoD Programs Can Learn from Past Efforts to Craft Better and Less Risky Acquisition Strategies, GAO-06-447, March 15, 2006
- **Defense Acquisitions:** Improved Business Case Is Needed for Future Combat System's Successful Outcome, GAO-06-367, March 14, 2006
- **Joint Strike Fighter:** Management of the Technology Transfer Process, GAO-06-364, March 14, 2006
- **Defense Logistics:** More Efficient Use of Active RFID Tags Could Potentially Avoid Millions in Unnecessary Purchases, GAO-06-366R, March 8, 2006
- **Defense Acquisitions:** Business Case and Business Arrangements Key for Future Combat System's Success, GAO-06-478T, March 1, 2006
- **Nuclear Weapons:** NNSA Needs to Refine and More Effectively Manage Its New Approach for Assessing and Certifying Nuclear Weapons, GAO-06-261, Feb. 3, 2006
- **Defense Management:** Fully Developed Management Framework Needed to Guide Air Force Future Total Force Efforts, GAO-06-232, Jan. 31, 2006
- **Defense Acquisitions:** DoD Management Approach and Processes Not Well-Suited to Support Development of Global Information Grid, GAO-06-211, January 30, 2006
- **Defense Trade Data,** GAO-06-319R, Jan. 27, 2006
- **DoD Business Transformation:** Defense Travel System Continues to Face Implementation Challenges, GAO-06-18, January 18, 2006

### Science, Space, and Technology

- **Space Acquisitions:** Improvements Needed in Space Systems Acquisitions and Keys to Achieving Them, GAO-06-626T, April 6, 2006
- **Polar-Orbiting Operational Environmental Satellites:** Cost Increases Trigger Review and Place Program's Direction on Hold, GAO-06-573T, March 30, 2006
- **Space Acquisitions:** DoD Needs a Department-wide Strategy for Pursuing Low-Cost, Responsive Tactical Space Capabilities, GAO-06-449, March 14, 2006



## Policy & Legislation



ACQUISITION,  
TECHNOLOGY AND  
LOGISTICS

**THE UNDER SECRETARY OF DEFENSE**  
3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

FEB 17 2006



MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
(ATTN: ACQUISITION EXECUTIVES)

SUBJECT: Government Accountability Office (GAO) High Risk Area: Contract Management

The Department of Defense (DoD) continues to be committed to aggressively addressing the High Risk Areas identified by the Government Accountability Office (GAO) in GAO-05-207, dated February 2005. I actively monitor our activities on each High Risk Area goal and milestone under my purview and provide the Deputy Secretary with periodic updates on our progress.

In the High Risk Area of DoD Contract Management, my staff has initiated periodic meetings with representatives of the Government Accountability Office and the Office of Management and Budget to ensure that our efforts remain closely aligned.

We recently updated the Department's Improvement Plan dated August 12, 2005, to incorporate implementation of section 812, Management Structure for Procurement of Contract Services, of the National Defense Authorization Act for Fiscal Year 2006, Public Law 109-163. We anticipate updating the Improvement Plan periodically to keep it current, and plan to do so in coordination with your representatives. Our goal is to implement a DoD-wide strategy for effective contract management. The updated Improvement Plan is enclosed, along with the most recent status update, to facilitate your support of these efforts.

I appreciate your support and oversight of these efforts as it is critical for success. Many of these issues will require you to effectively implement policies addressed in the plan.

Kenneth J. Krieg

Attachments:  
As stated

**Editor's note:** View the attachments to this memorandum at <[http://www.acq.osd.mil/dpap/policy/policyvault/policy\\_dept.jsp](http://www.acq.osd.mil/dpap/policy/policyvault/policy_dept.jsp)>.



## Policy & Legislation

THE UNDER SECRETARY OF DEFENSE  
3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010



FEB 17 2006

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Authority for Use of Other Transactions for Prototype Projects

Section 845(a)(2) of the National Defense Authorization Act for Fiscal Year 1994, Public Law 103-160 (1993), as amended by section 823 of the National Defense Authorization Act for Fiscal Year 2006, Public Law 109-163 (enacted January 6, 2006), imposes a written determination requirement for authority to use other transactions for prototype projects estimated to exceed \$20,000,000. The written determination requirement for authority to use other transactions applies to prototype projects that are directly related to weapons or weapon systems that are proposed to be developed or acquired by the Department of Defense. Section 823 also includes a requirement to notify the Congressional defense committees at least thirty days prior to signing an other transaction agreement for a prototype project that is expected to exceed \$100,000,000. The written determination approval levels for the use of other transactions for prototype projects set forth in section 823 are as follows:

Estimated Cost	Approval Authority for Military Departments	Approval Authority for Defense Agencies
Over \$20,000,000 up to \$100,000,000	Senior Procurement Executives	USD(AT&L)
Over \$100,000,000	USD(AT&L)	USD(AT&L)

Requests for determinations to permit the use of another transaction for a prototype project requiring my approval under section 845(a)(2) (as amended), shall be submitted to the Director, Defense Procurement and Acquisition Policy (DPAP), 3060 Defense Pentagon, Room 3E1044, Washington, D.C. 20301-3060. My staff point of contact for this subject is Ms. Susan Pollack, Defense Procurement and Acquisition Policy, 703-697-8336, [susan.pollack@osd.mil](mailto:susan.pollack@osd.mil).



Kenneth J. Krieg

**Editor's note:** View the distribution for this memorandum at [http://www.acq.osd.mil/dpap/policy/policyvault/policy\\_dept.jsp](http://www.acq.osd.mil/dpap/policy/policyvault/policy_dept.jsp).





# Policy & Legislation

**THE UNDER SECRETARY OF DEFENSE**  
3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010



FEB 17 2006

## MEMORANDUM FOR CHAIRMAN, DEFENSE SCIENCE BOARD

**SUBJECT:** Terms of Reference—Defense Science Board Task Force on Defense Industrial Structure for Transformation

You are requested to form a Defense Science Board (DSB) Task Force on Defense Industrial Structure for Transformation to describe the defense industry required to cope with the international security environment in the 21st Century.

The Department of Defense (DoD) adaptation to the changing security environment may have a profound effect on the industrial base that serves the Department. The shift to network-enabled operations may diminish requirements for force structure and associated platforms. Product development rather than the production cycle may dominate industry costs, profitability, and manufacturing capacity. Diminished platform requirements create cost, programmatic, and investment incentives for consolidation well below Tier 1 vendors.

Previous DSB efforts examined vertical integration issues in early 1997 and found that major defense firms had increased vertical integration in some product areas, and noted that such vertical integration was not posing systemic problems at that time. In addition, it examined globalization issues in 1999 to identify both the beneficial and the negative consequences of globalization. Since then, the Department and industry have both undergone significant transformation. Vertical integration continues to be a matter of interest. Some firms and industry observers allege that vertically integrated prime contractors favor in-house capabilities over better external solutions. DoD antitrust evaluations of proposed business combinations increasingly identify vertical capabilities as concerns to be investigated. Interconnected, networked families of systems are leading to fewer but larger prime contracts where responsibilities for ensuring competition for key and innovative elements are delegated to the prime contractor. The Department generally mitigates risks to its interests by increasing emphasis on DoD oversight of make-buy policies and decisions; and imposing behavioral remedies to preclude a newly combined firm from unfairly leveraging new internal capabilities to the detriment of its competitors.

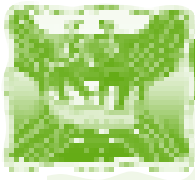
Furthermore, the financial viability of the defense sector may be at risk. As defense expenditures “top out” (and begin to decline in real terms), the underlying financial viability of the defense sector for the longer term may be negatively impacted.

The Task Force should characterize the degree of change likely and/or desirable in industry due to the changing nature of DoD and the industrial base. The Task Force should examine the effectiveness of existing mitigation measures and develop recommendations, if necessary, designed to ensure adequate future competition and innovation throughout all tiers of the defense industrial base.

While investigating these concerns, the Task Force will want to address the following questions:

- a. What are the implications for the industrial base of increased DoD acquisition of services? Will the existing (or perhaps more consolidated) defense industrial structure evolve into a predominately service orientation? What are the implications of the emerging practice of major defense firms acquiring independent service and support providers? To what degree should the globalization of product and service suppliers be enabled by policy and regulation?





## Policy & Legislation

b. If the trends in globalization and service continue, what are the policies and practices which allow DoD to benefit most from the future industrial base?

c. What have been the trends since the previous DSB study on Vertical Integration? Are critical component capabilities generally made available to competitors or not? After acquiring new companies, are critical or innovative capabilities effectively supplied to the Department?

d. What the implications for the financial viability of the defense industrial base as the sector adapts to changing DoD needs for defense-related products and services. If the defense sector further consolidates as it absorbs excess capacity and retools to meet evolving defense needs (e.g., services-centric rather than platform-centric), will DoD acquisition practices and consolidation policy be effective in ensuring that the defense sector will have the financial strength to support the needs of the industrial dimension of transformation?

e. How does vertical integration affect competition among prime contractors? How does vertical integration affect competition among sub-tier suppliers? How does vertical integration affect the market opportunities of a merchant supplier of a critical capability? How does vertical integration affect innovation?

f. For both merger and acquisition antitrust reviews and subcontractor source selection decisions, are the current mitigation measures used by the Department effective in reducing the risks of anticompetitive behavior and vertically integrated market structures? How effective are these measures in enabling the Department to acquire a solution with the best value?

g. What measures or policies might the Department and industry adopt or modify to better reduce the risks of anticompetitive behavior? What measure or policies might the Department and industry adopt or modify to better ensure the availability of solutions with the best value to the Department?

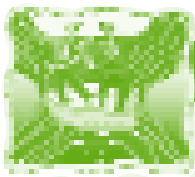
The Study will be sponsored by me as the Under Secretary of Defense (Acquisition, Technology and Logistics) and the Acting Deputy Under Secretary of Defense (Industrial Policy). Dr. Jacques Gansler will serve as the Task Force chairman. Mr. David Chu, ODUSD(IP), will serve as Executive Secretary and Major Charles Lominac, USAF, will serve as the Defense Science Board Secretariat representative.

The Task Force will operate in accordance with the provisions of P.L. 92-463, the "Federal Advisory Committee Act," and DoD Directive 5105.4, the "DoD Federal Advisory Committee Management Program." It is not anticipated that this Task Force will need to go into any "particular matters" within the meaning of Section 208 of title 18, United States Code, nor will it cause any member to be placed in the position of action as a procurement official.



Kenneth J. Krieg





## Policy & Legislation



**THE UNDER SECRETARY OF DEFENSE**  
3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

MAR 13 2006

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS

(ATTN: ACQUISITION EXECUTIVES)  
COMMANDER, UNITED STATES SPECIAL OPERATIONS COMMAND  
(ATTN: ACQUISITION EXECUTIVE)  
COMMANDER, UNITED STATES TRANSPORTATION COMMAND  
(ATTN: ACQUISITION EXECUTIVE)  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Acquisition System Management

As a result of his recent review of the management of the KC-767-A Tanker Program, the DoD Inspector General made several broader observations regarding our overall acquisition control system and the procedures the Department employs to evaluate proposed acquisition approaches, including leasing. This letter is intended to clarify Department policy on both points.

The acquisition of major systems is governed by a substantial body of policy captured in OMB circulars, the Federal Acquisition Regulation, and the DoD 5000 acquisition policies. These policies serve as a management control system intended to ensure that needed capabilities are provided while addressing risk and satisfying all other applicable federal government acquisition requirements. These policies also facilitate program success by structured consideration of a broad spectrum of issues that might endanger that success.

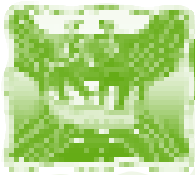
Many of these policies are inherently flexible to provide decision makers with the opportunity to tailor policy to the unique circumstances of each program. However, the opportunity to tailor and streamline must not be taken without thoughtful consideration of the issues our policies are designed to address. Flexibility and discipline are not mutually exclusive objectives.

We must also ensure we make the best use of the analytical tools available. DoD acquires capability through various means; however, use of an alternative approach such as leasing does not alter the requirement to review a program as rigorously as any other program of comparable size and complexity. The approach employed should be consistent with the requirement, and carefully evaluated in the context of a formal analysis of alternatives. In short, quantitative analysis must play a key role in our determination of the most cost-effective solution. I plan to review the results of those analyses at designated program decision points and strongly suggest that other decision authorities do likewise.

I believe that this flexible but disciplined approach will enhance our ability to make well informed decisions, improve our responsiveness to the warfighter, and ensure confidence in our acquisition system.



Kenneth J. Krieg



## Policy & Legislation



ACQUISITION,  
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**OFFICE OF THE UNDER SECRETARY OF DEFENSE**  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

MAR 29 2006



MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
ATTN: ACQUISITION EXECUTIVES  
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Award Fee Contracts (FAR 16, DFARS 215, DFARS 216)

Award fee contracts must be structured in ways that will focus the government's and contractor's efforts on meeting or exceeding cost, schedule, and performance requirements. The ability to earn award fees needs to be directly linked to achieving desired program outcomes. In December 2005, the Government Accountability Office (GAO) issued a report entitled "DEFENSE ACQUISITIONS: DoD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes" <<http://www.gao.gov/new.items/d0666.pdf>>, which made a number of recommendations on how to improve the use of award fees.

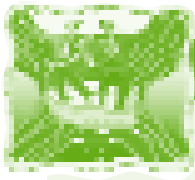
In the DoD response dated December 12, 2005, the Department generally concurred with the recommendations in the report and agreed to issue a policy memo by March 31, 2006, to (1) address desired outcomes and the role the award fee should play in the overall acquisition strategy; (2) remind the acquisition workforce to follow existing policies; (3) provide guidance to the acquisition workforce on "rollover"; and (4) develop a communication plan to share proven incentive strategies across the entire DoD acquisition workforce. These actions correspond to Recommendations 1, 2, 4 and 7, respectively, in the GAO report. Separately, the Department will respond to Recommendations 3, 5 and 6 of the report at a later time. While award fee contracts are intended to be flexible, this memorandum provides additional guidance on the proper use of award fees.

### Link Award Fees to Desired Outcomes (GAO Recommendation 1)

While award fee contracts are used when it is neither feasible nor effective to devise predetermined objective performance targets, it is imperative that award fees be tied to identifiable interim outcomes, discrete events or milestones, as much as possible. Examples of such interim milestones include timely completion of preliminary design review, critical design review, and successful system demonstration. In situations where there may be no identifiable milestone for a year or more, consideration should be given to apportioning some of the award fee pool for a predetermined interim period of time based on assessing progress toward milestones. In any case, award fee provisions must clearly explain how a contractor's performance will be evaluated.

### Award Fees Must Be Commensurate with Contractor Performance (GAO Recommendation 2)

While award fee arrangements should be structured to motivate excellent contractor performance, award fees must be commensurate with contractor performance over a range from satisfactory to excellent performance. Clearly, satisfactory performance should earn considerably less than excellent performance, otherwise the motivation to achieve excellence is negated. However, because base fees are typically limited to no more than three percent of target cost (DFARS 216.405-2), it is appropriate to award a portion of the award fee pool for satisfactory performance to ensure that contractors receive an adequate fee on our contracts. Performance that is less than satisfactory is not entitled to any award fee.



## Policy & Legislation

### Rollover of Award Fees (GAO Recommendation 4)

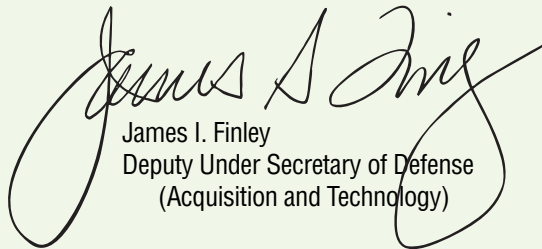
An element of many award fee plans is the ability to “roll over” unearned award fee money from one period to another. The following limitations on the use of “rollover” are established:

- Use of a “rollover” provision should be the exception rather than the rule.
- Use of an award fee rollover provision is a business decision and should be addressed in the acquisition strategy, including the rationale as to why a rollover provision is appropriate.
- If “rollover” is used, the contractor may only earn a portion of the fee that was rolled over, even for subsequent excellent performance. Factors to consider in determining how much to reduce the available rollover fee include how close the contractor came to meeting the scheduled milestone in terms of cost, schedule, and performance. For example, the reduction in rollover fees for missing a milestone by a year should be significantly greater than for missing a milestone by 30 days.
- If the Fee Determining Official approves the use of “rollover,” the official contract file must be documented accordingly and the contractor must be notified.

### Communication Plan (GAO Recommendation 7)

In order to facilitate discussion and to share proven incentive strategies across the entire acquisition workforce, the Department has established the “Award and Incentive Fees” Community of Practice (CoP) under the leadership of the Defense Acquisition University (DAU). The CoP will serve as the repository for all related materials including policy information, related training courses, examples of good award fee arrangements, and other supporting resources related to this policy memorandum. The CoP is available on the DAU Acquisition Community Connection at <https://acc.dau.mil/awardandincentivefees>.

This policy memorandum is effective immediately. The DFARS and/or its PGI supplement will be revised to reflect the policy contents of this memorandum. Please direct any questions to Michael Canales at 703-695-8571 or e-mail [Michael.Canales@osd.mil](mailto:Michael.Canales@osd.mil).



James I. Finley  
Deputy Under Secretary of Defense  
(Acquisition and Technology)



# Policy & Legislation



DEPARTMENT OF DEFENSE  
6000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-6000

DEC 22 2005

CHIEF INFORMATION OFFICER

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
ATTN: SENIOR ACQUISITION EXECUTIVES  
CHIEF INFORMATION OFFICERS  
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Department of Defense (DoD) Support for the SmartBUY Initiative

SmartBUY is a government-wide enterprise software initiative led by OMB to streamline the acquisition process and provide best priced, standards-compliant commercial software. SmartBUY does not mandate the use of a particular brand; rather, it mandates the use of the cost-effective common vehicle when an agency decides to purchase the software of a designated brand. GSA manages the SmartBUY initiative and leads the interagency team in negotiating government-wide enterprise agreements for software.

DoD implements SmartBUY through the DoD Enterprise Software Initiative (DoD ESI) Team, which works closely with SmartBUY leaders to provide DoD commercial software requirements, to manage selected SmartBUY agreements and to assist DoD buyers with use of all SmartBUY agreements. Information about current SmartBUY agreements (including ordering and waiver procedures) is located at the DoD ESI website: <http://www.esi.mil>.

Use of SmartBUY agreements is mandatory, where requirements evaluation has led to the designated brand name software product or service. Your agency is expected to support the SmartBUY initiative through the following actions:

- Acquire commercial software from one of the existing ESI or SmartBUY agreements listed on the left side of the DoD ESI website, **Designated Agreements** (<http://www.esi.mil>). Follow the procedures directed by DFARS subpart 208.74 — **Enterprise Software Agreements**.
- As per DoDI 5000.2, para E4.2.7 — **Operation of the Defense Acquisition System**, always consult with the ESI Team prior to negotiating directly with software publishers or resellers for large requirements, even if there is no ESI or SmartBUY agreement yet in place for the commercial software in question.
- Ensure that new large commercial software contracts and licensing arrangements, regardless of the acquisition method, are flexible enough to permit migration to a SmartBUY vehicle within twelve months.

The DoD Smart BUY points of contact are: Rex Bolton, OASD (NII)/DoD CIO, 703-602-0980 ext 171, [rex.bolton@osd.mil](mailto:rex.bolton@osd.mil); Floyd Groce, DON CIO, 703-607-5658, [floyd.groce@navy.mil](mailto:floyd.groce@navy.mil); and Jim Clausen, OASD (NII)/DoD CIO, 703-602-0980 ext 169, [james.clausen@osd.mil](mailto:james.clausen@osd.mil). The AT&L point of contact is Mark Krzysko, OUSD (AT&L), 703-614-3883 ext 121, [mark.krzysko@osd.mil](mailto:mark.krzysko@osd.mil).

  
Domenic C. Cipicchio  
Acting Director, Defense Procurement  
and Acquisition Policy

  
Priscilla E. Guthrie  
Deputy Chief Information Officer





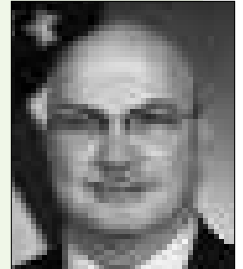
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ACQUISITION,  
TECHNOLOGY AND  
LOGISTICS

FEB 01 2006



MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Performance-Based Service Acquisition (PBSA)

The purpose of this memorandum is to ensure that Military Departments and Defense Agencies are aware of current DoD requirements relating to PBSA. DoD remains committed to increasing the appropriate use of PBSA. On September 7, 2004, the Office of Federal Procurement Policy (OPFF) issued a memorandum, Attachment (1), implementing PBSA recommendations developed by an interagency task force, including target goals for PBSA use; a list of service areas excluded from the assessment of PBSA goal achievement; and guidance for supplemental reporting. DoD has made significant progress increasing PBSA use. In Fiscal Year 2004, more than 40% of applicable service contracts were performance-based. Therefore, DoD has continued to work toward its existing goal of 50% of eligible service actions over \$25,000 (measured in dollars awarded). Please note that actions may be coded as performance-based if more than 50% of the requirement, measured in dollars, is performance-based.

Attachment (2) provides a current list of services exempted from the requirement to use performance-based contracting methods and a list of service areas excluded from the annual assessment of PBSA goal achievement. Military Departments and Defense Agencies that want actions in the excluded service areas to be included in the annual assessment of PBSA should contact my office.

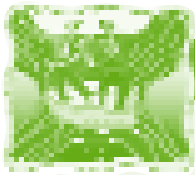
DoD is committed to increasing the quality of PBSA actions. On August 19, 2003, the USD(AT&L) issued a memorandum, Attachment (3), requiring that, by the end of Fiscal Year 2005, personnel involved in preparation of performance-based statements of work must complete PBSA training. To address this requirement, Defense Acquisition University continuous learning module, CLC 013, Performance-Based services Acquisition, is available at <https://learn.dau.mil/html/clc/Register.jsp>.

Fiscal Year 2005 PBSA reports, your point of contact information, and a report of PBSA training for personnel involved in preparing or approving performance-based statements of work are due to my office by February 28, 2006. My point of contact is Ms. Linda Neilson, who can be reached at (703) 697-8334 or via email at [linda.neilson@osd.mil](mailto:linda.neilson@osd.mil).

  
Domenic C. Cipicchio  
Acting Director, Defense Procurement  
and Acquisition Policy

Attachments:  
As stated

**Editor's note:** View the attachments to this memorandum at [http://www.acq.osd.mil/dpap/policy/policyvault/policy\\_dept.jsp](http://www.acq.osd.mil/dpap/policy/policyvault/policy_dept.jsp).



# Policy & Legislation



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**OFFICE OF THE UNDER SECRETARY OF DEFENSE**  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

FEB 08 2006

MEMORANDUM FOR DIRECTORS OF THE DEFENSE AGENCIES  
DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(POLICY AND PROCUREMENT), ASA(ALT)  
DEPUTY ASSISTANT SECRETARY OF THE NAVY  
(ACQUISITION MANAGEMENT), ASN(RDA)  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING), SAF/AQC  
EXECUTIVE DIRECTOR, LOGISTICS POLICY AND  
ACQUISITION MANAGEMENT (DLA)

SUBJECT: Class Deviation-Suspension of the Price Evaluation Adjustment for  
Small Disadvantaged Businesses

Effective 30 days after the date of this memorandum, Department of Defense (DoD) contracting activities shall continue to suspend the use of the price evaluation adjustment for small disadvantaged businesses (SDBs) in DoD procurement, as prescribed in the Federal Acquisition Regulation (FAR) subpart 19.11 and Defense Federal Acquisition Regulation Supplement (DFARS) subpart 219.11. The suspension is in effect for a one-year period 30 days after the date of this deviation and applies to all solicitations issued during this time period.

Subsection 2323(e) of title 10, United States Code (U.S.C.), as amended by section 801 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 and section 816 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003, requires DoD to suspend the regulation implementing the authority to enter into a contract for a price exceeding fair market cost if the Secretary determines at the beginning of the Fiscal Year that DoD achieved the five percent goal established in 10 U.S.C. 2323(a) in the most recent fiscal year for which data are available. Based on the most recent data for Fiscal Year 2005, the determination was made that DoD exceeded the five percent goal established in 10 U.S.C. 2323(a) for contract awards to SDBs. Accordingly, use of the price evaluation adjustment prescribed in FAR 19.11 and DFARS 219.11 is suspended for DoD.

My staff point of contact for this deviation is Ms. Susan Pollack at (703) 697-8336 or [susan.pollack@osd.mil](mailto:susan.pollack@osd.mil).

Domenic C. Cipicchio  
Acting Director, Defense Procurement  
and Acquisition Policy

